

RETIREMENT TODAY

TEACHERS' FUND FOR RETIREMENT

DECEMBER 2001

Actuarial Report Shows TFFR Remains Strong



Each year, TFFR's actuary performs an actuarial valuation to describe the financial condition of the Fund, to assess the adequacy of the current contribution rates, and to analyze changes in funding requirements. In short, the

annual valuation is a mathematical means of determining if the contributions paid by members and employers, along with investment earnings, are adequate to pay the retirement benefits of current and future retirees.

According to the July 1, 2001 report, the member and employer contribution rate of 7.75% each is sufficient to fund TFFR benefits and to amortize TFFR's unfunded actuarial accrued liability (UAAL) over a period of 20 years. The margin between the 7.75% statutory rate and the rate necessary to fund the UAAL is 3.76%. This margin

decreased from 6.28% mainly because of the new legislation adopted in 2001.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio last year was 101.6%, while it is 96.4% this year. This decrease is also due to the adoption of the new benefit provisions.

The 2001 actuarial report shows that the plan represents 16,412 active, inactive, and retired members. The average age of active members was 44.4 years, up from 43.9 last year; average service credit was 14.4 years, up from 14.1 in 2000; and average annual salary was \$33,421, up from \$32,223 last year. As of June 30, 2001, 4,777 retirees and beneficiaries were receiving average benefits of \$995 per month which increased to \$1,093 after the July 1, 2001 legislative benefit increase.



**NORTH DAKOTA
RETIREMENT AND
INVESTMENT OFFICE**

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State Investment Board*

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Articles are for general information only and are not intended to provide specific advice or recommendation. Other forms of this newsletter are available on request.

TFFR Board Elects Officers



The TFFR Board at its July meeting re-elected Mark Sanford as Board President and Barb Evanson as Vice President.

Pictured, left to right, front row: Norman Stuhlmiller, Barbara Evanson, Kathi Gilmore, Harley "Curly" McLain. Back row: Wayne Sanstead, Mark Sanford, Paul Lofthus

What Lies Ahead?

Like you, I've had a lot on my mind lately. In addition to concerns over the September 11, 2001 attack and our nation's war on terrorism, we are beginning to see signs of a slowing business economy. Does a gloomy future lie ahead for TFFR?



Fay Kopp
Deputy Executive Director

TFFR INVESTMENTS

If you've followed the investment world lately, you've probably guessed that TFFR investments did not fare well last year. In fact, TFFR investments returned -7.30% for the year ended June 30, 2001. According to Steve Cochrane, RIO Executive Director and Chief Investment Officer, "the State Investment Board did a good job minimizing the damage the markets dished out this past fiscal year. But the net result is still a loss in value to TFFR. We all know that some years come around as pay back for the good ones, and this was definitely one of those payback years." As of this writing, the markets remain weak.

Although TFFR negative investment returns may raise concerns, your retirement plan benefits are secure. TFFR is a well-funded and financially sound plan capable of withstanding short-term ups and downs in the financial markets. TFFR is well diversified in its asset allocation and employs managers with high expertise in managing their assets. TFFR also uses conservative investment accounting practices.

One such conservative practice used by TFFR to help "ease the pain" is known as "smoothing." This practice allows us to average plan asset values over five years so that any one-year performance doesn't have as big an impact on the plan. "Smoothing" adds consistency and dramatically reduces volatility of returns.

DEFINED BENEFIT AND DEFINED CONTRIBUTION PLANS

When the stock market is down, it's not uncommon for TFFR active members and benefit recipients to be concerned about their retirement plan. Fortunately for TFFR members, the ups and downs of the stock market do not directly affect member benefits. This is because TFFR is a defined benefit (DB) plan. In a DB plan, benefits remain steady in the face of market movements.

In a DB plan like TFFR, both active members and employers make retirement contributions which are invested to provide a defined retirement benefit. You do not make the investment decisions; TFFR does. Your benefit is based on a specific formula using your final average salary, total years of service credit, and benefit multiplier (currently 2.0%).

On the other hand, defined contribution (DC) plans are "individual account" plans like IRAs, 403(b) tax deferred annuities, 457 deferred compensation plans, and private sector 401(k) plans. In a DC plan, you decide how retirement contributions are invested, and you take all of the financial risks and rewards. With a DC plan, you are not promised a specific benefit, but are entitled to receive what your account balance will purchase on the day you retire.

Because a DB plan is paid for the member's lifetime (and often for the life of a surviving beneficiary), its value is difficult to convey. A DB plan like TFFR provides retirees with insurance against outliving their retirement resources. This is in contrast to a DC plan which lasts only as long as there is a balance in the account.

YOUR RETIREMENT FOUNDATION

TFFR's goal is to provide members with a base level of retirement benefits equal to 60% of a career teacher's final average salary. Your TFFR defined benefit plan accomplishes this without requiring investment expertise on the part of the employees, and without subjecting your benefits to market volatility risk found in defined contribution plans.

Your TFFR defined benefit plan is the foundation for your retirement income. However, in order to maintain your desired standard of living, we encourage you to supplement your TFFR and Social Security benefits with personal savings and investments.

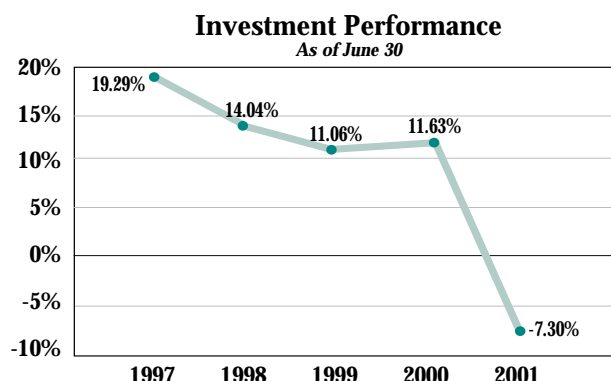
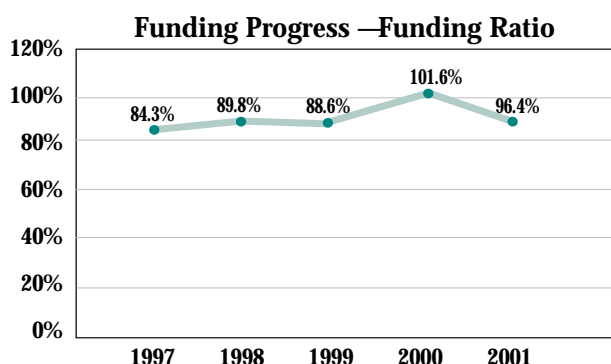
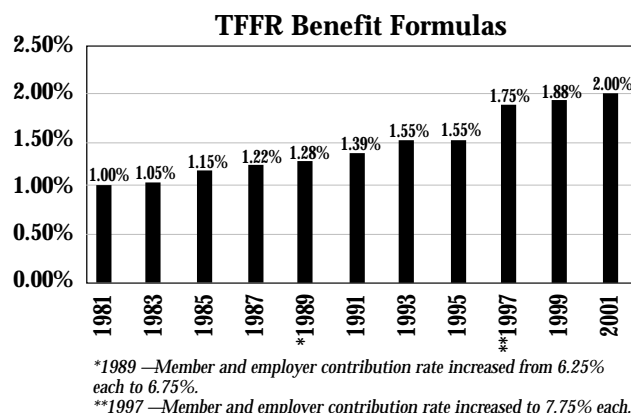
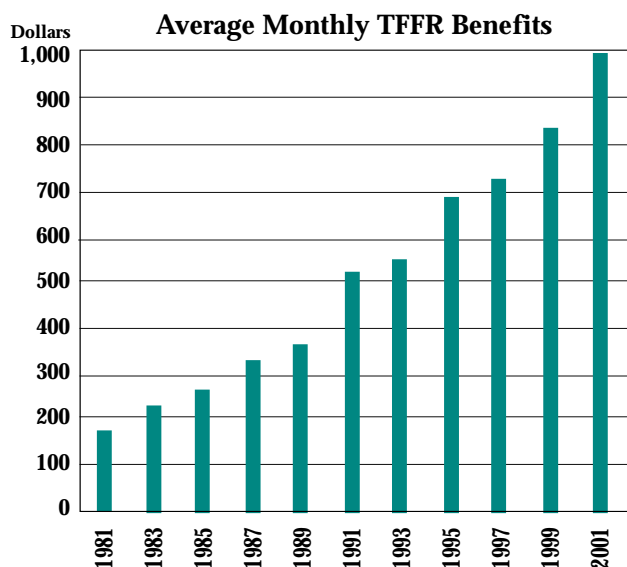
THE FUTURE?

Undoubtedly, current economic downturns are causing the Fund's investments to decrease in value. And although your current level of benefits is guaranteed, there is no promise to increase benefits in the future for either active or retired members.

The TFFR Board and its actuarial consultant are closely monitoring the plan to determine whether future benefit improvements are affordable. To maintain the financial soundness of TFFR, it appears unlikely that benefit enhancements will be proposed to the 2003 Legislative Assembly.

2001 ANNUAL REPORT SUMMARY

2001 Annual Financial Report available upon request.



STATEMENT OF ASSETS AS OF JUNE 30, 2001

ASSETS

Equities	\$ 809,650,401
Fixed Income	241,785,523
Real Estate	139,409,884
Private Equity	56,875,159
Invested Cash	23,529,222
Invested Securities Lending	53,013,503
Receivables	14,542,381
Other Assets	6,057,326
Total Assets	\$ 1,344,863,399

LIABILITIES

Accounts Payable	\$ 1,014,555
Accrued Expenses	134,634
Securities Lending	53,013,503
Other Liabilities	38,567
Total Liabilities	\$ 54,201,259

Net Assets on June 30, 2001 **\$ 1,290,622,140**

CHANGES IN ASSETS DURING FISCAL YEAR 2001

CASH POSITION

Net Assets on June 30, 2000 **\$ 1,405,246,440**

ADDITIONS

Member Contributions	\$ 26,289,672
Employer Contributions	26,289,206
Other Additions	1,943,629
Investment Income	(107,138,721)
Total Additions	\$ (52,616,214)

DEDUCTIONS

Benefits Paid	\$ 57,740,914
Refunds	3,127,841
Administrative Expenses	1,099,331
Total Deductions	\$ 61,968,086

Net Decrease **\$ 114,584,300**

Net Assets on June 30, 2001 **\$ 1,290,622,140**

New Actuarial Consultant

Watson Wyatt & Company (WW) has been TFFR's actuarial consultant since 1991. On September 1, 2001, Watson Wyatt transferred its public pension plan actuarial services to the firm of Gabriel, Roeder, Smith & Company (GRS).

Fortunately for TFFR, the same team of WW consultants that provided actuarial services to TFFR in the past

are now GRS employees and will continue to provide actuarial services to TFFR.

This change should have major long-term benefits for TFFR. We will now be served by an actuarial firm that has the greatest presence and the widest areas of experience in public sector retirement plans.



Dental Coverage Enrollment Period

Retirees and surviving spouses who receive a pension benefit from the Teachers' Fund for Retirement are eligible to participate in the North Dakota Public Employees Retirement System (PERS) dental plan.

Beginning January 2002, individuals may elect to enroll in the dental plan during an annual enrollment period or within 31 days of a "qualifying event." October 2002 will be the last annual open enrollment period. The "qualifying events" are as follows:

- Date of 1st retirement benefit payment
- Retiree's 65th birthday or eligibility for Medicare

- Spouse's 65th birthday or eligibility for Medicare
- Loss of dental coverage in an employer-sponsored plan (including completion of COBRA continuation period)
- Marriage
- Birth, adoption, or legal guardianship

For coverage information and enrollment forms, please contact PERS at 701-328-3900 or 1-800-803-7377.

Administrative Rules Hearing

A public hearing has been tentatively scheduled for January 24, 2002, to address proposed amendments to ND Administrative Code Title 82. The purpose of the proposed amendments is to implement state statutes.

The proposed rules address the Teachers' Fund for Retirement payment of survivor benefits; rights to a formal hearing and appeal; and Qualified Domestic Relations Orders.

A copy of the proposed rules may be requested by writing, calling or emailing the Retirement and Investment Office.

Lofthus Re-appointed to TFFR Board

Governor Hoeven has reappointed Paul Lofthus to the TFFR Board of Trustees for a five-year term. Paul has been a TFFR board member since 1997 and



Paul Lofthus

represents active teachers. He also serves on the State Investment Board. Thank you, Paul, for your service to all TFFR members.

Divorce and Your TFFR Retirement Benefits

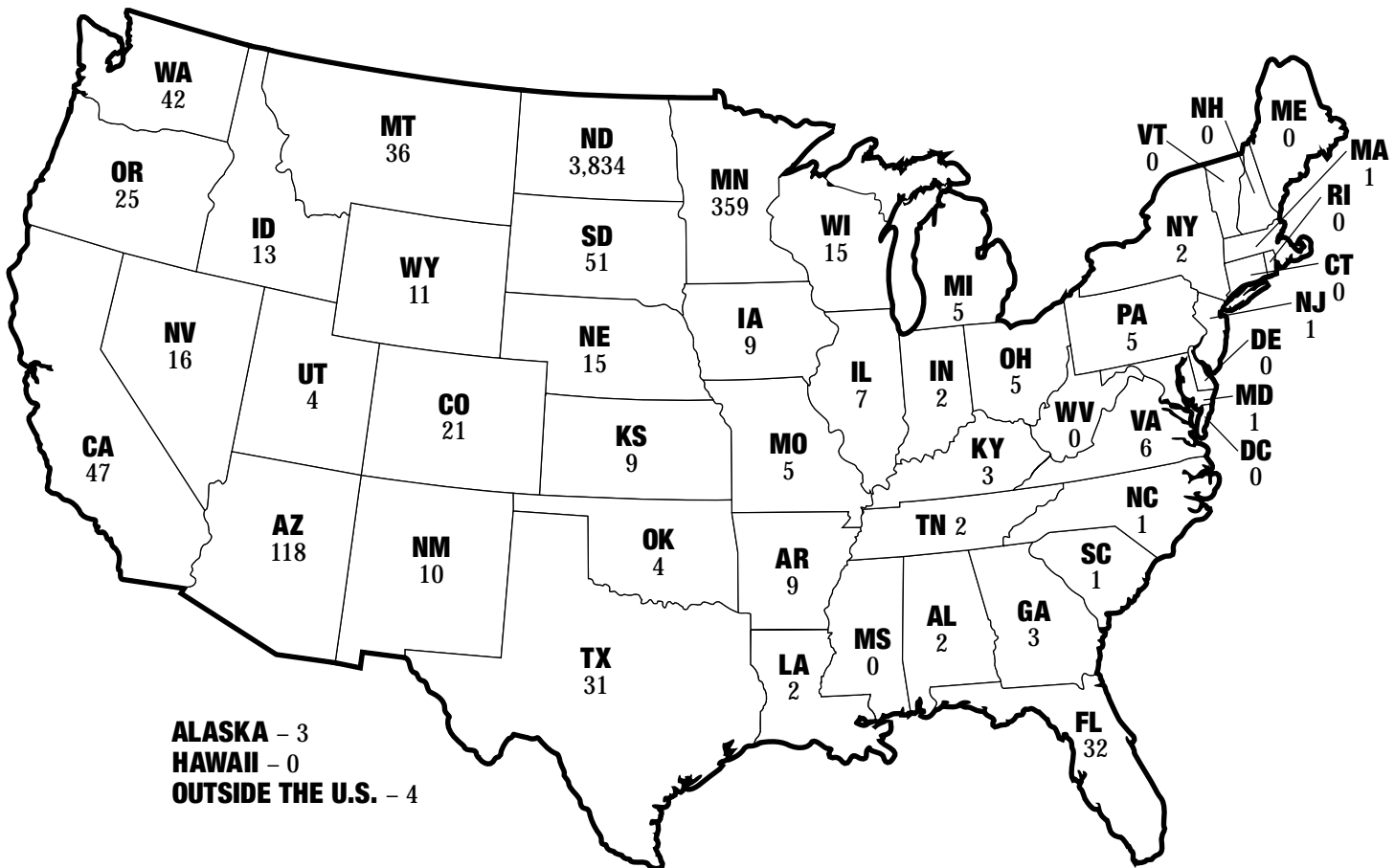
Generally, your TFFR account is considered a marital asset and is subject to valuation and division in a divorce. We have created a new brochure to give TFFR members, their spouses, and attorneys information to properly structure a Qualified Domestic Relations Order (QDRO) under North Dakota state law. A QDRO is any judgment, decree, or order affecting a TFFR member's retirement account relating to spousal support, child support, or the distribution of marital property. A sample QDRO model has been developed and should be used by attorneys in drafting a QDRO.

The Divorce & Your TFFR Retirement Benefits brochure can be found on our website or it can be requested from our office along with the model QDRO.



TFFR RETIREES BY STATE

As of June 30, 2001



Federal and State Tax Withholding Changes

Changes to the federal tax withholding tables (due to the Tax Relief Act enacted by Congress last summer) will likely decrease the amount of federal tax withheld from your TFFR retirement check beginning January 1, 2002. This decrease in your federal tax liability would in turn decrease the amount of your North Dakota state tax withholding. For this reason, the 2001 ND Legislative Assembly approved a bill that creates alternative methods for determining the amount of state tax withholding.

The former single withholding rate of 14% of the federal withholding amount has been replaced by a set of five tax rates ranging from 2.10% to 5.54% that apply to your taxable income. An alternate method is to increase the single withholding rate

from 14% to 21% of the federal withholding amount. For most retirees, 21% of a smaller federal withholding amount will cause only a slight change in your current level of state tax withholding.

Beginning January 1, 2002, TFFR will calculate your state tax withholding at 21% of the federal tax withholding amount. A benefit notice will be sent to all retirees at year end. This notice will include the withholding changes and year end benefit and deduction totals.

If you would like to change your federal and/or state tax withholding election, please contact the administrative office for a W-4P Tax Withholding Form or print the form from our website, www.discovernd.com/rio.



Wishing you
a warm and
wonderful
Holiday Season!

*From the staff at the
North Dakota Retirement
and Investment Office*

Retirees Will Receive 1099-Rs in January

Copy 2 - File this copy with your state, city, or local income tax return, when required

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution \$		OMB No. 1545-0119 2001 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		2a Taxable amount \$		Total distribution		
		2b Taxable amount not determined				
PAYER'S Federal identification number	RECIPIENT'S identification number	3 Capital gain (deducted in box 2a) \$		4 Federal income tax withheld \$		5 Employee contributions or insurance premiums \$
RECIPIENT'S name (first, middle, last) street address, city, state, and ZIP code		6 Net unrealized appreciation in employer's securities \$		7 Distribution code	8 ROTH/SEP/SIMPLE	9 Other \$
		10 Your percentage of total distribution %		11 Total employee contributions \$		
		12 State tax withheld \$		13 State/Payer's state no.		14 State distribution \$
Account number (optional)		15 Local tax withheld \$		16 Name of locality		17 Local distribution \$

Form **1099-R** Department of the Treasury - Internal Revenue Service

Watch your mail in January for your 1099-R tax form. You will need this form to file your 2001 tax return. Make sure we have your current address so you will receive your 1099-R in a timely fashion.

Each box on the 1099-R is defined on the back of the form. However, Box 5, *Employee contributions or insurance premiums*,

needs extra clarification. The figure in Box 5 does not pertain to health insurance. If an amount is shown in this box, it is the difference between the Gross Distribution (Box 1) and the Taxable Amount (Box 2a) and represents the portion of your previously taxed contributions recovered in 2001.

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